

MNQUMA LOCAL MUNICIPALITY
BUDGET AND TREASURY OFFICE



DRAFT MTREF BUDGET 2017 – 2020

REPORT TO COUNCIL

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DRAFT MEDIUM TERM REVENUE AND EXPENDITURE FRAME WORK BUDGET (MTREF) 2017 - 2020

1. Purpose

The purpose of this report is to present the Draft MTREF budget for 2017 - 2020 to Council for approval.

2. Legal or statutory requirement

- 2.1 Section 215 of the Constitution of the Republic of South Africa, Act No 108 of 1996 states that; National, provincial and municipal budgets and budgetary processes must promote transparency, accountability and the effective financial management of the economy, debt and the public sector.
- 2.2 Section 16(1) of the MFMA, Act 56 of 2003 states that; the council of a municipality must for each financial year approve an annual budget for the Municipality before the start of that financial year.
- 2.3 Section 16(2) of the MFMA, Act 56 of 2003 states that; In order for a municipality to comply with subsection (1), the Mayor of the Municipality must table the annual budget at a council meeting at least 90 days before the start of the budget year.
- 2.4 Section 21(2) of the MFMA states that; When preparing the annual budget, the mayor of a municipality must—
 - (a) take into account the municipality's integrated development plan;
 - (b) take all reasonable steps to ensure that the municipality revises the integrated development plan in terms of section 34 of the Municipal Systems Act, taking into account realistic revenue and expenditure projections for future years;
 - (c) take into account the national budget, the relevant provincial budget, the national government's fiscal and macro-economic policy, the annual Division of Revenue Act and any agreements reached in the Budget Forum;

3. Background exposition, facts and proposals

The municipality is required by Municipal Finance Management Act to adopt a budget process plan with clear time frames to be followed when compiling an annual budget. The process plan was adopted by council on the 31st August 2016.

In line with the approved process plan directorates were requested to submit their budgets for 2017/18 financial year. After submissions were received BTO consolidated the requests for the 2017-2020 Draft Budget.

The draft MTREF Budget has been prepared taking into account all the priorities of the institution as contained in the Five year strategic plan (IDP). The budget for Capital and Operating projects flow from the objectives and strategies as outlined in the IDP.

4. BUDGET ASSUMPTIONS

The draft budget is based on the following:

- Personnel expenditure increase for employees below Section 56 Managers has been provided for in the budget at 7, 4% based on salary and wage collective agreement.
- Personnel expenditure increase for Section 56 and Section 57 Managers is 6%.
- Personnel expenditure increase for Councilors is based on 4% increases for 2016/2017 as per gazette no 40519.

5. REVENUE PER FUNDING SOURCES:

GRANT	2017-2018	2018-2019	2019-2020
	R	R	R
Equitable Share	227 129 000	233 395 000	236 441 000
Finance Management Grant	1 700 000	1 700 000	1 700 000
Municipal Infrastructure Grant	63 693 000	67 331 000	71 171 000
Expanded Public Works Programme	2 316 000	-	-
Integrated National Electrification Programme	5 000 000	10 870 000	10 000 000
Own Revenue	42 192 983	44 481 629	46 808 882
TOTAL	342 030 983	357 777 629	366 120 882

6. SUMMARY OF THE DRAFT MTREF BUDGET FOR 2017-2020 AND EXPLANATORY NOTES

6.1 SUMMARY OF THE DRAFT MTREF BUDGET

Description		Ref	2013/14		2014/15		2015/16		Current Year 2016/17		2017/18 Medium Term Revenue & Expenditure Framework	
			R thousand	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Budget Year 2017/18	Budget Year +1 2018/19	Budget Year +2 2019/20	
Revenue By Source												
Property rates	2	11,713	19,384	—	—	19,472	19,472	—	20,622	—	21,817	
Service charges - electricity revenue	2	3,470	3,591	—	—	—	—	—	—	—	—	
Service charges - water revenue	2	—	—	—	—	—	—	—	—	—	—	
Service charges - sanitation revenue	2	—	—	—	—	—	—	—	—	—	—	
Service charges - refuse revenue	2	3,470	3,591	—	—	4,100	4,100	4,100	4,100	4,100	4,100	
Service charges - other	—	—	—	—	—	—	—	—	—	—	—	
Rental of facilities and equipment	2,114	2,300	2,848	2,700	2,700	3,203	3,436	3,436	3,627	3,627		
Interest earned - external investments	4,435	5,116	5,336	4,500	4,500	5,661	5,995	5,995	6,343	6,343		
Interest earned - outstanding debtors	2,912	3,694	5,074	4,525	4,525	5,383	5,701	5,701	6,031	6,031		
Dividends received	—	—	—	—	—	—	—	—	—	—	—	
Fines, penalties and forfeits	6,158	8,342	8,522	2,322	2,322	9,051	3,177	3,177	3,361	3,361		
Licences and permits	956	2,744	1,094	3,836	3,836	1,015	1,075	1,075	1,138	1,138		
Agency services	2,709	1,029	2,769	920	920	3,900	4,130	4,130	4,370	4,370		
Transfers and subsidies	171,996	194,400	239,409	217,033	221,897	228,746	242,242	242,242	256,292	256,292		
Other revenue	2	—	—	5,144	5,144	1,268	1,268	1,268	1,335	1,335		
Gains on disposal of PPE	—	—	—	590	590	1,100	1,165	1,165	1,232	1,232		
Total Revenue (excluding capital transfers and contributions)		209,934	244,192	266,344	265,143	270,006	282,831	292,911	309,646	309,646		
Expenditure By Type												
Employee related costs	2	104,471	130,822	—	165,411	161,270	175,121	185,453	196,209	196,209		
Remuneration of councillors	21,644	22,141	25,888	24,421	22,275	26,687	28,261	28,261	29,900	29,900		
Debt impairment	13,188	28,629	22,920	21,980	21,980	18,893	12,595	12,595	13,325	13,325		
Depreciation & asset impairment	103,310	107,242	—	106,784	106,784	113,084	119,643	119,643	126,562	126,562		
Finance charges	373	748	717	1,200	1,305	940	995	995	1,053	1,053		
Bulk purchases	4,170	10,131	—	7,000	7,000	9,039	9,572	9,572	10,127	10,127		
Other materials	10,784	7,559	6,461	7,757	6,493	6,376	6,752	6,752	7,144	7,144		
Contracted services	7,836	—	—	7,285	16,445	10,844	11,483	11,483	12,149	12,149		
Transfers and subsidies	—	—	—	—	—	—	—	—	—	—		
Other expenditure	4,5	47,487	66,206	—	52,067	51,716	41,932	44,206	46,518	46,518		
Loss on disposal of PPE	3,456	683	1,074	—	—	—	—	—	—	—		
Total Expenditure		316,718	374,162	57,069	392,904	395,267	395,915	418,961	443,009	443,009		

Description R thousand	Ref	2013/14	2014/15	2015/16	Current Year 2016/17	2017/18 Medium Term Revenue & Expenditure Framework	
						Audited Outcome	Audited Outcome
Surplus/(Deficit)							
Transfers and subsidies - capital (monetary allocations) (National / Provincial and District)		(106,784)	(129,970)	209,275	(128,761)	(125,261)	(113,084)
Transfers and subsidies - capital (monetary allocations) (National / Provincial Departmental Agencies, Households, Non-profit Institutions, Private Enterprises, Public Corporations, Higher Educational Institutions)	47,179	88,742	80,897	72,225	68,461	68,776	(126,050)
Transfers and subsidies - capital (in-kind - all)	6	—	—	—	—	—	—
Surplus/(Deficit) after capital transfers & contributions							
Taxation							
Surplus/(Deficit) after taxation							
Attributable to minorities		(59,605)	(41,228)	290,172	(56,537)	(56,800)	(44,308)
Surplus/(Deficit) attributable to municipality							
Share of surplus/ (deficit) of associate	7	(59,605)	(41,228)	290,172	(56,537)	(56,800)	(44,308)
Surplus/(Deficit) for the year		(59,605)	(41,228)	290,172	(56,537)	(56,800)	(44,308)
							(47,705)
							(51,907)

6.2 EXPLANATORY NOTES FOR THE EXPENDITURE BUDGET

6.2.1 Personnel Budget

- a) Expenditure on Personnel has been prepared using the recently approved organogram taking into account the proposed posts that need to be filled. The budget for personnel will increase from R189m to R201m.
- b) The increase is due to the proposed salary adjustment of 7.1% for employees below section 56 managers and 6% for section 56 and section 57 managers.
- c) Councilors' Allowances increase is as a result of proposed adjustment of 4% in Gazette 40519.

6.2.2 Budget for non-cash items

These are non-cash items that are regulated by standards of Generally Recognized Accounting Practices (**GRAP**). They include depreciation and provision for bad debts.

6.2.3 Finance Charges

The finance lease budget includes vehicles purchased through a finance lease.

6.2.4 Bulk Purchases

Indigent subsidies for free basic electricity and alternative energy

6.2.5 Other Materials and Maintenance

R6m has been budgeted for road maintenance, street lights, community hall refurbishment etc.

6.2.6 Contracted Services

These include audit committee allowances, audit fees, insurance premiums, legal fees, registration and licensing and security function.

7. SUMMARY OF OPERATING PROJECTS FOR 2017-2020

OPERATING PROJECTS PER DIRECTORATE

DIRECTORATE	PROPOSED BUDGET 2017-2018	PROPOSED BUDGET 2018-2019	PROPOSED BUDGET 2019-2020
Office Of The Municipal Manager	400 000	423 200	448 169
Local Economic Development	764 000	808 312	856 002
Strategic Management	1 687 000	1 784 846	1 890 152
Infrastructural Planning And Development	6 000 650	6 348 688	6 723 260
Community Services	1 672 640	1 769 653	1 874 063
Budget And Treasury	2 910 461	3 079 268	3 260 945
Corporate Services	3 635 000	3 845 830	4 072 734
TOTAL PER DIRECTORATE	17 069 751	18 059 797	19 125 325

OPERATING PROJECTS PER FUNDING

FUNDING SOURCES	PROPOSED BUDGET 2017-2018	PROPOSED BUDGET 2018-2019	PROPOSED BUDGET 2019-2020
Equitable Share	9 869 101	10 441 509	11 057 558
Finance Management Grant	1 700 000	1 798 600	1 904 717
Municipal Infrastructure Grant	3 184 650	3 369 360	3 568 152
Expanded Public Works Programme	2 316 000	2 450 328	2 594 897
OPERATING PROJECTS PER FUNDING	17 069 751	18 059 797	19 125 325

8. SUMMARY OF CAPITAL BUDGET FOR 2017-2020

The capital budget has been allocated such that service delivery directorates receive the better share than support directorates. The Capital budget has decreased from **R 72 224 700** to **R 68 776 350**.

CAPITAL BUDGET PER DIRECTORATE

DIRECTORATE	PROPOSED BUDGET 2017-2018	PROPOSED BUDGET 2018-2019	PROPOSED BUDGET 2019-2020
Office Of The Municipal Manager	70 000	74 060	78 430
Local Economic Development	100 000	105 800	112 042
Strategic Management	107 000	113 206	119 885
Infrastructural Planning And Development	66 914 350	76 375 382	79 370 200
Community Services	695 000	735 310	778 693
Budget And Treasury	420 000	444 360	470 577
Corporate Services	470 000	497 260	526 598
TOTAL PER DIRECTORATE	68 776 350	78 345 378	81 456 426

CAPITAL BUDGET PER FUNDING SOURCES

FUNDING SOURCES	PROPOSED BUDGET 2017-2018	PROPOSED BUDGET 2018-2019	PROPOSED BUDGET 2019-2020
Equitable Share	3 268 000	3 457 544	3 661 539
Integrated National Electrification Plan	5 000 000	10 870 000	10 000 000
Municipal Infrastructure Grant	60 508 350	64 017 834	67 794 887
CAPITAL PROJECTS PER FUNDING	68 776 350	78 345 378	81 456 426

9. TARIFF STRUCTURE

Proposed increase in tariffs has been attached as per **ANNEXURE 5**

10. Staff implications

None

11. Financial implications

1. Operating income budget has increased from **R 264 098 000** to **R 282 831 000**
2. Operating Expenditure budget has increased from **R 393 904 000** to **R 395 915 000**
3. Capital Budget has decreased from **R 72 225 000** to **R 68 776 000**
4. Operating budget has a deficit of **R 113 084 000** which is made by non-cash item (Depreciation).

12. Annexures

1. Draft MTREF Budget 2017-2020 in A1 schedule template (A1 – A10 tables and supporting tables)
2. Extract from Circular 86 (Salary and Wage Collective Agreement)
3. Detailed Draft Operating Projects MTREF budget for 2017 - 2020
4. Detailed Draft Capital MTREF Budget for 2017 - 2020
5. Draft Tariff Structure for 2017 - 2018

13. Recommendations

It is hereby recommended that Council approves the Draft MTREF Budget for 2017-2020.

It is further recommended that the following resolutions be taken by the council:

1. That in terms of section 24 of the MFMA Act 56 of 2003, the draft annual budget of the municipality for 2017-2020 and Capital appropriations are approved as set out in the following tables:
 - 1.1 Budgeted Financial Performance by standard classification of revenue of R 282 831 000 and Expenditure of R 395 915 000 (A2) be approved.
 - 1.2 Budgeted Financial Performance by vote of revenue of R 282 831 000 and Expenditure of R 395 915 000 (A3) be approved.
 - 1.3 Budgeted Financial Performance of revenue by source of R 282 831 000 and Expenditure of R 395 915 000 (A4) be approved.
2. That the Draft Financial Position, Draft Cash flow and Draft Service delivery targets are approved in the following tables:
 - 2.1 Capital Expenditure of R 68 776 000 (A5)
 - 2.2 Budgeted Financial Position (A6)
 - 2.3 Budgeted Cash flows (A7)
 - 2.4 Cash backed and accumulated surplus reconciliation (A8)
 - 2.5 Asset management (A9)

2.6 Basic service delivery measures (A10)

3. That in terms of S24(2)(c)(i) of the MFMA Act 56 of 2003 and Section 74 and 75 of the Municipal Systems Act of 2000 as amended; the draft tariffs of rates and services that were used to prepare the estimates of revenue by source are approved with effect from 1 July 2017.
4. That in terms of section 24(2)(c)(iii) of the MFMA Act 56 of 2003, the measurable performance objectives for draft operating and capital budget by vote for each year of the MTREF as set out in supporting tables are approved.
5. That free basic package as set out in the budget is approved.
6. That in terms of section 24(2)(c)(v) of the MFMA Act 56 of 2003 the following policies are part of the budget process and were used in the preparation of the budget and were approved by council:

6.1 Budget Policy

6.2 Indigent Policy

6.3 Property Rates policy

6.4 Tariff Policy

6.5 Borrowing Policy

6.6 Supply Chain Management Policy

6.7 Asset Management Policy

6.7 Credit Control and Debt management Policy

6.8 Funds and Reserves Policy

6.9 Cash Management Policy

6.10 Investments Policy